

Consolidated Financial Statements

2018, 2017 and 2016, Grupo Sanborns, S.A.B. de C.V. and Subsidiaries

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Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Paseo de la Reforma 505, piso 28
Colonia Cuauhtémoc
06500 Ciudad de México
México
Tel: +52 (55) 5080 6000
www.deloitte.com/mx

Independent Auditors' Report

to the Board of Directors and Stockholders of Grupo Sanborns, S.A.B. de C.V.

Opinion

We have audited the consolidated financial statements of Grupo Sanborns, S.A.B. de C.V. and subsidiaries (the "Entity" or "Grupo Sanborns"), which comprise the consolidated statements of financial position as of December 31, 2018, 2017 and 2016, the consolidated statements of comprehensive profit and loss and other comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, as well as the explanatory notes to the consolidated financial statements, which include a summary of the significant accounting policies used.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Sanborns, S.A.B. de C.V. and subsidiaries as of December 31, 2018, 2017 and 2016, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Consolidated Financial Statements section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Key audit matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit issues that should be communicated in our report.

Revenue recognition

Presentation and completeness of the revenues reported in the financial statements

[See Note 20 to the consolidated financial statements]

We assumed a risk of material misstatement related to revenue recognition and evaluated what types of revenues, revenue transactions or assertions give rise to such risks.

We verified the completeness of the revenues based on tests related to the daily point-of-sale closing process and the parameters used as a control by the system, as well as aspects related to the cutoff in the appropriate accounting period and its realization in cash or through accounts receivable. We analyzed the accurate presentation of the revenues in the financial statements. The results of our audit procedures were reasonable.

Accounting estimates

- **Allowance for doubtful accounts**

[See Note 8 to the consolidated financial statements]

The Entity carries out sales of goods and services based on credit, resulting in accounts receivable and the corresponding allowance for doubtful accounts, which are determined once the loans have been granted and certain customers fail to pay. The factors considered by the Entity in the allowance for doubtful accounts are mainly collection delays based on the credit conditions established, unsecured accounts and other relevant economic conditions.

We verified and tested that the allowance for doubtful accounts is calculated and recorded in accordance with the accounting operations and policies of the Entity, conducted aging analysis testing and also reviewed the appropriate classification of the overdue receivables which support the parameters applied to determine the allowance for the current year. The results of our audit procedures were reasonable.

Property and equipment

[See Note 12 to the consolidated financial statements]

During the year, the Entity has opened, closed, remodeled, expanded and transformed some of its stores in its different formats as part of the regular course of its operations; consequently, we have identified as a risk the appropriate control, recording and disclosure of these operations in the financial statements, given the importance of the amounts invested.

The procedures applied to validate the appropriate recording consist of: 1) review of the amounts budgeted against the amounts invested and the review of internal control for each project, 2) selective physical inspection of the newly opened or remodeled stores, 3) review of the appropriate and timely capitalization of each project to begin its depreciation and 4) review of the correct handling and accounting treatment of the disposal of assets during the closing or remodeling of the stores. The results of our audit procedures were reasonable.

Information Different from the Consolidated Financial Statements and the Auditors' Report

["Other information"]

Management is responsible for the other information. The other information will include the information that will be incorporated into the Annual Report that the Entity is required to prepare in accordance with Article 33, section I, subsection b) of Title Fourth, Chapter First of the General Provisions Applicable to Issuers and Other Stock Market Participants in Mexico, and the Instructions which accompany those provisions [the Provisions]. The Annual Report is expected to be available for consultation after the date of this audit report.

Our opinion on the consolidated financial statements will not cover the other information and we will not express any form of assurance thereon.

In relation to our audit of the consolidated financial statements, our responsibility is to read the Annual Report, and when doing so, to consider if the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or appears to contain a material misstatement. When we read the Annual Report we will issue the legend on the reading of the Annual Report required by Article 33, section I, subsection b) item 1.2. of the Provisions.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a Going Concern, disclosing, as applicable, matters related to Going Concern and using the Going Concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Entity's consolidated financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the relevant transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

A handwritten signature in black ink, consisting of a vertical line on the left, a horizontal line crossing it, and a large, stylized loop on the right.

C. P. C. Marco Antonio Mayorquín Ruiz

April 9, 2019

Consolidated Statements of Financial Position

As of December 31, 2018, 2017 and 2016
 [In thousands of Mexican pesos]

	Note	2018	2017	2016
Assets				
Current assets:				
Cash and cash equivalents	7	\$ 2,477,658	\$ 1,924,601	\$ 1,714,356
Accounts receivable, Net	8	14,257,886	14,275,601	13,116,889
Inventories, Net	9	12,359,171	10,806,031	10,455,932
Prepaid expenses		81,734	158,261	144,475
Total current assets		29,176,449	27,164,494	25,431,652
Non-current assets:				
Long-term accounts receivable		–	–	10,143
Property, machinery and equipment, Net	12	–	14,517,847	14,400,591
Investment property	13	14,549,494	2,323,901	2,207,946
Investment in shares of associated companies and others	14	2,415,553	2,086,829	1,913,536
Employee retirement benefits	17	2,273,917	628,112	504,551
Deferred income taxes	24b	537,346	1,014,482	600,583
Other assets, Net		1,233,593	152,249	116,041
Total non-current assets		21,205,984	20,723,420	19,753,391
Total assets		\$ 50,382,433	\$ 47,887,914	\$ 45,185,043
Liabilities				
Current liabilities:				
Trade accounts payable		\$ 9,115,216	\$ 7,505,683	\$ 7,166,771
Other accounts payable and accrued liabilities	15	\$ 3,884,256	4,356,487	3,854,636
Due to related parties	19	803,382	498,291	518,388
Provisions	16	129,265	125,708	102,292
Direct employee benefits		496,767	491,269	452,699
Income tax payable		196,041	420,953	387,652
Total current liabilities		14,624,927	13,398,391	12,482,438
Non-current liabilities:				
Income tax payable long-term	24e	665,105	497,385	444,188
Employee retirement benefits	17	56,494	245,236	142,006
Deferred income taxes	24b	1,242,613	1,227,152	1,164,886
Total non-current liabilities		1,964,212	1,969,773	1,751,080
Total liabilities		16,589,139	15,368,164	14,233,518
Stockholders' equity				
Stockholders' equity:				
Capital stock	18	1,980,050	1,990,185	2,003,960
Additional paid - in capital		10,896,604	10,896,604	10,896,604
Accumulated earnings		19,961,198	18,757,742	17,225,414
Other comprehensive loss items		(382,697)	(356,510)	(349,766)
Controlling interest		32,455,155	31,288,021	29,776,212
Non-controlling interest		1,338,139	1,231,729	1,175,313
Total stockholders' equity		33,793,294	32,519,750	30,951,525
Total liabilities and stockholders' equity		\$ 50,382,433	\$ 47,887,914	\$ 45,185,043

See accompanying notes to consolidated financial statements.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the years ended December 31, 2018, 2017 and 2016

[In thousands of Mexican pesos, except for basic earnings per commons share data]

	Note	2018	2017	2016
Revenue	20	\$ 51,755,422	\$ 49,768,427	\$ 47,593,847
Costs of sales and services	21	31,630,528	30,044,866	28,671,387
Gross profit		20,124,894	19,723,561	18,922,460
Selling and distribution expenses	21	11,364,747	11,037,721	10,386,185
Administrative expenses	21	3,006,758	2,648,207	2,247,278
Depreciation	21	1,246,541	1,195,686	1,064,335
Other income	22	(552,161)	(456,266)	(1,481,058)
Other expenses	23	262,898	139,803	85,467
Interest expense		158,103	143,794	128,748
Interest income		(270,535)	(195,295)	(248,201)
Exchange gain		(107,072)	(128,567)	(161,183)
Exchange loss		118,352	122,518	222,227
Equity in income of associates companies	14	(187,088)	(173,293)	(89,992)
Income before income taxes		5,084,351	5,389,253	6,768,654
Income taxes	24a	1,346,296	1,227,272	2,034,667
Consolidated net income for the year		3,738,055	4,161,981	4,733,987
Other comprehensive income, net of income tax:				
Items that may be reclassified subsequently to profit or loss:				
Effect of adoption of new standard		(76,242)	-	-
Exchange differences on translating foreign operations		(2,300)	(13,948)	58,204
Item that will not be reclassified subsequently to profit or loss:				
Actuarial gain (loss)	17	74,793	10,291	(78,972)
Deferred income taxes		(22,438)	(3,087)	23,411
Consolidated comprehensive income of the year		\$ 3,711,868	\$ 4,155,237	\$ 4,736,630
Consolidated net income attributable to:				
Controlling interest		\$ 3,534,506	\$ 3,957,856	\$ 4,466,305
Non-controlling interest		203,549	204,125	267,682
		\$ 3,738,055	\$ 4,161,981	\$ 4,733,987
Consolidate comprehensive income attributable to:				
Controlling interest		\$ 3,508,319	\$ 3,951,112	\$ 4,468,948
Non-controlling interest		203,549	204,125	267,682
		\$ 3,711,868	\$ 4,155,237	\$ 4,736,630
Basic earnings per common share attributable to interest		\$ 1.56	\$ 1.72	\$ 1.94
Weighted average number of shares		2,268,903,242	2,296,547,855	2,304,319,680

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2018, 2017 and 2016
[In thousands of Mexican pesos]

	Capital Stock	Additional paid -in Capital	Retained earnings	Translation effects of foreign operations
Balances as of January 1, 2016	\$ 2,010,544	\$ 10,896,604	\$ 14,797,155	\$ 68,050
Dividends paid to controlling interest and non-controlling interest	–	–	(1,981,172)	–
Repurchase of shares, net of dividends	(6,584)	–	(229,307)	–
Decrease in non-controlling interest due to stock purchase	–	–	172,433	–
Increase in non-controlling interest due to stock purchase	–	–	–	–
Consolidated comprehensive income of the year	–	–	4,466,305	58,204
Balances as of December 31, 2016	2,003,960	10,896,604	17,225,414	126,254
Dividends paid to controlling interest and non-controlling interest	–	–	(2,015,241)	–
Repurchase of shares, net of dividends	(13,775)	–	(410,287)	–
Consolidated comprehensive income of the year	–	–	3,957,856	(13,948)
Balances as of December 31, 2017	1,990,185	10,896,604	18,757,742	112,306
Dividends paid to controlling interest and non-controlling interest	–	–	(2,040,218)	–
Repurchase of shares, net of dividends	(10,135)	–	(290,832)	–
Consolidated comprehensive income of the year	–	–	3,534,506	(2,300)
Balances as of December 31, 2018	\$ 1,980,050	\$ 10,896,604	\$ 19,961,198	\$ (416,461)

See accompanying notes to consolidated financial statements.

	Applied IFRS 9	Actuarial gain (loss)	Total controlling interest	Non-controlling interest	Total Stockholder's Equity
\$	–	\$ (420,459)	\$ 27,351,894	\$ 2,043,237	\$ 29,395,131
	–	–	(1,981,172)	(129,461)	(2,110,633)
	–	–	(235,891)	–	(235,891)
	–	–	172,433	(1,437,068)	(1,264,635)
	–	–	–	430,925	430,925
	–	(55,561)	4,468,948	267,680	4,736,628
	–	(476,020)	29,776,212	1,175,313	30,951,525
	–	–	(2,015,241)	(147,709)	(2,162,950)
	–	–	(424,062)	–	(424,062)
–		7,204	3,951,112	204,125	4,155,237
–		(468,816)	31,288,021	1,231,729	32,519,750
	–	–	(2,040,218)	(97,139)	(2,137,357)
	–	–	(300,967)	–	(300,967)
	(76,242)	52,355	3,508,319	203,549	3,711,868
\$	(76,242)	\$ (416,461)	\$ 32,455,155	\$ 1,338,139	\$ 33,793,294

Consolidated Statements of Cash Flows

For the years ended December 31, 2018, 2017 and 2016
(In thousands of Mexican pesos)

	2018	2017	2016
Cash flows from operating activities:			
Consolidated net income for the year	\$ 3,738,055	\$ 4,161,981	\$ 4,733,987
Adjustments not requiring (providing) cash:			
Income tax recognized in net income	1,346,296	1,227,272	2,034,667
Depreciation and amortization	1,289,725	1,258,361	1,116,873
Impairment of property	(23,175)	31,349	–
(Gain) loss on sale of property, machinery and equipment	112,151	17,431	(2,368)
Provisions	3,557	23,416	42,629
Gain arising on changes in fair value of investment properties	(91,652)	(115,955)	(121,718)
Gain on stock purchase	–	–	(1,141,267)
Interest expense	158,103	143,794	128,748
Equity in income of associates	(187,088)	(173,293)	(89,992)
Interest income	(4,064,516)	(3,804,754)	(3,430,773)
	<u>2,281,456</u>	<u>2,769,602</u>	<u>3,270,786</u>
Items related to operating activities:			
(Increase) decrease in:			
Accounts receivable	165,949	(966,841)	(1,516,340)
Interest received from operating activities	3,759,751	3,577,472	3,140,534
Inventories	(1,553,140)	(350,099)	(1,249,618)
Prepaid expenses	76,527	(13,786)	(17,618)
Other assets	(63,331)	(50,738)	(81,919)
Long-term accounts receivable	–	10,143	17,336
Net assets projected for future employee retirement benefits	143,121	(116,357)	9,644
(Decrease) increase in:			
Trade accounts payable	143,121	338,912	1,111,390
Other accounts payable and accrued liabilities	(809,731)	471,573	236,365
Due to related parties	305,095	(20,097)	223,526
Direct employee benefits	5,498	38,570	21,632
Income taxes paid	(1,607,138)	(1,492,407)	(1,671,225)
Net cash flows provided by operating activities	<u>4,313,590</u>	<u>4,195,947</u>	<u>3,494,493</u>
Cash flows from investing activities:			
Purchase of property, machinery and equipment	(1,418,350)	(1,583,697)	(2,904,643)
Sales of property, machinery and equipment	27,501	194,670	6,447
Acquisition of shares	–	–	(1,945,602)
Business acquisition	–	–	403,008
Interest received	80,289	35,411	99,460
Net cash flows used in investing activities	<u>(1,310,560)</u>	<u>(1,374,456)</u>	<u>(4,341,330)</u>
Cash flows from financing activities:			
Repurchase of shares	(300,967)	(424,062)	(235,891)
Interest paid	(9,934)	(12,166)	(10,188)
Dividends paid to controlling interest and non-controlling interest	(2,136,772)	(2,161,070)	(2,106,825)
Net cash flows used in financing activities	<u>(2,447,673)</u>	<u>(2,597,298)</u>	<u>(2,352,904)</u>
Effects of exchange rate changes on cash and cash equivalents	(2,300)	(13,948)	58,524
Net decrease in cash and cash equivalents	553,057	210,245	(3,141,217)
Cash and cash equivalents at beginning of the year	1,924,601	1,714,356	4,855,573
Cash and cash equivalents at end of the year	<u>\$ 2,477,658</u>	<u>\$ 1,924,601</u>	<u>\$ 1,714,356</u>

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016
(In thousands of Mexican pesos (\$) and thousands of U.S. dollars (US\$))

1. Activities

Grupo Sanborns, S.A. de C.V. ("Grupo Sanborns") and Subsidiaries (the "Entity") is a subsidiary of Grupo Carso, S.A.B. de C.V. ("Grupo Carso"). The Entity is the owner of a group of companies domiciled in Lago Zürich number 245 seventh floor, Colonia Ampliación Granada in Mexico City, Postal Code 11529 and is primarily engaged in the operation of retail stores and restaurants, including a chain of department stores, fashion boutiques, Sanborns stores, the distribution and sale of latest generation Apple products, a network for the sale of recorded music and videos, a chain of luxury department stores, distribution of regional cosmetics and perfumes, a chain of traditional Mexican restaurants, a chain of industrial cafeterias and the management and leasing of two shopping malls. The detail of each of the Entity's subsidiaries and their primary activities is set out in Note 4c.

2. Significant events for the year

- a. **New openings** - During 2018 the Entity opened 18 stores, 4 Sears' stores, 4 Sanborns' stores, 9 iShop's stores and 1 Mix-up. During 2017 the Entity opened 9 stores, 2 Sears' stores, 1 Sanborns' stores and 6 iShop's stores. During 2016 the Entity opened 17 stores, 6 Sears' stores, 7 Sanborns' stores and 4 iShop's stores.

3. Application of new and revised International Financial Reporting Standards

- a. **Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") that are mandatorily effective for the current year**

In the current year, the Entity has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2018.

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Entity has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. However, the Entity has elected to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Entity adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures about 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

[a] Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Entity has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Entity has applied the requirements of IFRS 9 to instruments that continue to be recognized as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognized as at 1 January 2018 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortized cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity must make the following irrevocable election / designation at initial recognition of a financial asset:

- the Entity may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and
- the Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.
- financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Entity to recognize a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortized cost or at FVTOCI,
- (2) Lease receivables,
- (3) Trade receivables and contract assets, and
- (4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime of expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is purchased or has originated a credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Entity is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

For purposes of the impairment of financial assets, the entity chose to apply the simplified approach for accounts receivable, which consists in recognizing reserves for the life of the instrument, without evaluating increases in risk for its classification in stages, considering the following:

- Reserve percentages will be established based on the historical experience of the portfolio, with methodologies that allow past behavior to be used to predict future behavior.
- Relevant prospective information is identified that allows to advance changes to the estimates made with respect to those constructed with historical information.
- The business model of the entity is to maintain to collect, so the classifications of accounts receivable are valued at amortized cost.

The impact of the regulation as of January 1, 2018 has meant a higher provision according to the expected loss model in the amount of \$ 76,242 recorded against retained earnings, net of deferred tax.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Entity's exposure to credit risk in the consolidated financial statements (see notes for details).

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The Entity does not have financial liabilities, therefore, no effects were identified with respect to the classification and measurement of financial liabilities.

i. Financial instruments

Financial assets and liabilities are recognized when the Entity becomes a part of the contractual provisions of the instruments.

ii. Disclosures related to the initial application of IFRS 9

There were no financial assets or financial liabilities that the Entity had previously designated as fair value through results under IAS 39 that were subject to reclassification or that the Entity had chosen to reclassify in the application of IFRS 9. There were no financial assets or financial liabilities that the entity has chosen to designate at fair value through profit or loss on the date of the initial application of IFRS 9.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Entity has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity recognizes the revenue coming from the sale mainly in department stores and restaurants, haute couture boutiques, Sanborns stores, the distribution and sale of products of the latest generation Apple brand, a network of sales of recorded music and video, a chain of department stores of luxury, distribution of cosmetics and perfumes of the region, a chain of restaurants of traditional food, a chain of industrial coffee shops, an electronic commerce platform, and the administration and leasing of two.

The Entity's management estimates that the application of IFRS 15 in the future will not have any material effect on the amounts reported and disclosures made in the consolidated financial statements of the Entity.

Impact of application of Other amendments to IFRS Standards and Interpretations

In the current year, the Entity has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

The Entity has adopted the amendments to IFRS 2 for the first time in the current year. The amendments clarify the following:

IFRS 2 (amendments)
Classification and
Measurement of
Share-based Payment
Transactions

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - (i) the original liability is derecognized;

- (ii) the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
- (iii) any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

IFRIC 22
Foreign Currency Transactions
and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

New and revised IFRS Standards in issued but not yet effective

At the date of authorization of these financial statements, The Entity has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 16	<i>Leases</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Annual Improvements to IFRS Standards 2015–2017 Cycle	<i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i>
Amendments to IAS 19 <i>Employee Benefits</i>	<i>Plan Amendment, Curtailment or Settlement</i>
IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Entity in future periods, except as noted below:

IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Entity will be 1 January 2019.

The Entity has chosen the full retrospective application of IFRS 16 in accordance with IFRS 16:C5(a). Consequently, the Entity will restate the comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Entity will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Entity will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified

on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Entity has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Entity.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Entity accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Entity will:

- a) Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Entity will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Entity has non-cancellable operating lease commitments of \$10,050,585.

A preliminary assessment indicates that \$8,040,468 of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Entity will recognize a right-of-use asset of \$5,484,394 and a corresponding lease liability of \$6,485,097 in respect of all these leases. The impact on profit or loss occurs when decreasing. Other expenses by 1,229,602, increasing depreciation by \$ 802,540 and to increase interest expense by \$470,461.

The preliminary assessment indicates that \$2,010,117 of these arrangements relate to short-term leases and leases of low-value assets.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to reduce the cash generated by operating activities by \$1,229,602 and to increase net cash used in financing activities by the same amount.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Entity's consolidated financial statements in future periods should such transactions arise.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as an entity; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

4. Significant accounting polices

a. Statement of compliance

The consolidated financial statements of the Entity have been prepared in accordance with International Financial Reporting Standards released by IASB.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain long-term assets and financial instruments which are valued at restated or fair value at each period end, as explained in the accounting policies discussed below. The consolidated financial statements are prepared in Mexican pesos, the legal currency in Mexico, and are presented in thousands of Mexican pesos, unless otherwise stated.

i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. Fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. Basis of consolidation of the financial statements

The consolidated financial statements incorporate the financial statements of Grupo Sanborns, S.A.B. de C.V. and entities (including structured entities) controlled by the Entity and its subsidiaries. Control is achieved when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When Grupo Sanborns has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. Grupo Sanborns considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of Grupo Sanborns' holdings of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by Grupo Sanborns, other vote holders or other parties;

- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when Grupo Sanborns, obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Grupo Sanborns' accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

The ownership percentages over the capital stock of its subsidiaries as of December 31, 2018, 2017 and 2016 are shown below:

Subsidiary	Activity	% de Ownership		
		2018	2017	2016
Sanborn Hermanos, S.A. and Subsidiaries ("Sanborns")	Operation of department stores, gifts, records and restaurants under the Sanborns brand	99.23	99.23	99.23
Sears Operadora México, S.A. de C.V. and Subsidiaries ("Sears")	Operation of department stores under the Sears brand	98.94	98.94	98.94
Promotora Comercial Sanborns, S.A. de C.V. and Subsidiaries	Operation of record stores, restaurants and coffee shops under the iShop, Mix-up, Sanborns Café brands and Sanborns store in Panama	99.96	99.96	99.96
Operadora de Tiendas Internacionales, S.A. de C.V. and Subsidiary	Operation of department stores under the Saks Fifth Avenue brand	100.00	100.00	100.00
Servicios Corporativos de Grupo Sanborns, S.A. de C.V. and Subsidiaries	Boutiques operator and subholding	100.00	100.00	100.00
Corporación de Tiendas Internacionales, S.A. de C.V. ("Corpti")	Sanborns and Sears stores in El Salvador	100.00	100.00	100.00
Comercializadora Dax, S.A. de C.V. and Subsidiary	Operation of department stores under Dax brand	100.00	100.00	100.00
Grupo Inmobiliario Sanborns, S.A de C.V.	Sale, lease or sublease of fixed assets.	100.00	100.00	100.00
Claroshop.Com Holding, S.A. de C.V.	E-commerce	56.54	56.54	56.54
Gentics & ME, S.A. de C.V.	Retail trade of natural products and food supplements	99.00	–	–

i) Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of Grupo Sanborns.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

ii) Seasonality

Historically, the Entity has experienced seasonal patterns of sales in stores due to increased consumption activity during the Christmas and New Year period, in the months of May and June, because of Mother's Day and Father's Day, respectively, and at the start of the school year in September. During these periods it promotes products such as toys or winter clothes, and school utensils and articles during the back-to-school period. By contrast, it suffers a drop in sales in July and August.

The Entity seeks to reduce the effect of seasonality in its results through commercial strategies such as agreements with suppliers, competitive pricing and intensive promotion, for which reason its impact in the statements of comprehensive income and of financial position is insignificant.

d. Financial instruments

Financial assets and financial liabilities are recognized in the Entity's statement of financial position when the Entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

e. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

- Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

(i) Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired [see below]. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income".

(ii) Debt instruments classified as at FVTOCI

The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses [see below], impairment gains or losses [see below], and interest income calculated using the effective interest method [see (i) above] are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(ii) Equity instruments designated as at FVTOCI

On initial recognition, the Entity may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not being reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' line item (note 61) in profit or loss.

The Entity has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9 (see notes 2 and 21).

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Entity has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses'

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item (note 60);
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other gains and losses' line item (note 60). Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item (note 60); and
- for equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

See hedge accounting policy regarding the recognition of exchange differences where the foreign currency risk component of a financial asset is designated as a hedging instrument for a hedge of foreign currency risk.

(iv) Impairment of financial assets

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(v) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- [1] The financial instrument has a low risk of default,
- [2] The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- [3] Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Entity considers the changes in the risk that the specified debtor will default on the contract.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(vi) Definition of default

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(vii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event (see (ii) above);
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(viii) Write-off policy

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(ix) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Entity expects to receive from the holder, the debtor or any other party.

If the Entity has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Entity measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(x) Derecognition of financial assets

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

f. Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of an Entity of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship [see Hedge accounting policy]. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item (note 60) in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Entity that are designated by the Entity as at FVTPL are recognized in profit or loss.

Fair value is determined in the manner described in note 38(a)(i).

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss (note 60) for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

g. Inventories and cost of sales

Are stated at the lower of cost of acquisition and / or construction or net realizable value (estimated selling price less all costs to sell), as follows:

They are valued using the average cost method, including the cost of materials and direct expenses that are incurred in the acquisition of inventory by the Entity. Impairments are reflected as reductions in the carrying amount of inventories.

h. Loyalty programs for customers

Awards are accounted for as a separate component of the initial sale transaction, measured at their fair value and recognized as deferred income in the statement of financial position, within other accounts payable and accrued liabilities. Deferred revenue is recognized in results once the award is redeemed or expires.

i. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in the other comprehensive income and are reclassified from the stockholders' equity to profits or losses when selling, totally or partially, the net investment.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Mexican pesos using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

The corresponding adjustments to goodwill and fair value generated in the acquisition of a foreign operation are treated as assets and liabilities of this operation and translated at the rate prevailing at the closing date. The resulting exchange differences are recognized in other comprehensive income.

The functional and recording currency of Grupo Sanborns and its subsidiaries is the Mexican peso, except for certain subsidiaries whose currencies recording and / or functional are different as follows:

Entity	Recording currency	Functional currency
Sanborns Panamá, S.A.	US Dollar	US Dollar
Corporación de Tiendas Internacionales, S.A. de C.V. (El Salvador)	US Dollar	US Dollar

The entities listed above are considered foreign operations under IFRS.

j. Direct employee benefits, employee retirement benefits and statutory employee profit sharing (PTU)

The costs of direct employee benefits and defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

The seniority premium liability for all personnel, non-union personnel pensions and retirement payments treated as pensions are considered in defined benefit plans. The cost of these benefits is determined by using the projected unit credit method and the actuarial valuations prepared at the end of each reporting period. Actuarial gains and losses are immediately recognized in other comprehensive income, net of deferred tax, based on the net asset or liability recognized in the consolidated statement of financial position, so as to reflect the over- or underfunded status of employee benefit plan obligations. Similarly, past service costs are recognized in results when the plan is modified or when restructuring costs are incurred.

Retirement benefit obligations recognized in the statement of financial position represent the current value of the defined benefit obligation adjusted according to actuarial gains and losses and the past service costs, less the fair value of plan assets. When plan assets exceed the liabilities of the defined benefit plan, they are valued according to the lower of: i) the defined benefit plan surplus, and ii) the present value of any economic benefits derived from the plan and available as future plan contribution reimbursements or reductions.

Statutory employee profit sharing (PTU)

PTU is recorded in the results of the year in which it is incurred.

As result of the 2014 Income Tax Law, as of December 31, 2018, 2017 and 2016, PTU is determined based on taxable income, according to Section I of Article 10 of the that Law.

l. Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

i. Current tax

The tax calculated corresponds to income tax ("ISR") and recorded in the income year in which it is incurred.

ii. Deferred income taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Administration estimates to recover the total fair value through the sale.

iii. Current and deferred tax

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

k. Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

m. Revenue recognition

The revenue is calculated at the fair value of the consideration received or receivable, taking into account the estimated amount of customer returns, rebates and other similar discounts. The recognition of income is made according to the following criteria:

i. Revenue recognition

The Entity recognizes income from the following sources at a point in time, which occurs when the control of the products is transferred to the customer:

Revenue from retail sales of department stores, specialty stores, luxury stores and restaurant stores, with highly recognized brands such as: Sears, Sanborns, iShop-Mixup, eduMac, Saks Fifth Avenue, DAX and Sanborns Café.

Income from the operation of an electronic commerce platform under the Claroshop.com brand. Claro operates its transactions from its internet portal www.claroshop.com.

The Entity sells goods directly with the customer through its points of sale and the income is recognized when the control of the goods has been transmitted, being the point at which the buyer acquires the goods in the retail store. The payment of the transaction price is immediate at the point at which the buyer acquires the goods.

Under the standard contractual terms of the Entity, the buyer has the right to return the goods within 30 days after the sale. This represents a variable consideration that is recognized as a liability for the amount estimated to be reimbursed for refunds and an adjustment to the corresponding income. At the same time, the entity has the right to recover the product when the buyer exercises his right to return it, consequently he recognizes an asset for the right to the goods returned by the customer and an adjustment corresponding to the cost of sales.

The Entity uses its historical experience to estimate the number of products returned at the portfolio level using an expected method. It is considered highly probable that there will not be a significant revision in the accumulated income recognized, given the constant level of performance of previous years.

ii. **Interest on credit sales** - Interest income from credit sales is recognized when they accrue and is generated by the operation of credit cards and other credits (Sanborns, Sears, Saks, Mixup, Corpti and Claroshop).

iii. **Administrative services and banking intermediation** - They are recognized over time, as the service is provided.

iv. **Leasing** - They are recognized on the basis of a straight line as the leasing services are provided and the maintenance fees are recognized in the period of the duration of the lease from which they come.

n. Property, plant and equipment

As of January 1, 2011, date of transition to IFRS, property, plant and equipment were valued at deemed cost (depreciated cost adjusted for an inflation index), or fair value determined through appraisals for certain items of property, machinery and equipment. Subsequent acquisitions are recorded at acquisition cost. Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets which are reviewed yearly; the effect of any change in the accounting estimate is recognized on a prospective basis.

	Year life
Buildings and leasehold improvements	10 to 50 years
Machinery and equipment	20 years
Vehicles	4 and 5 years
Furniture and fixtures	20 years
Computers	4 and 6 years

Borrowing costs incurred during the period of construction and installation of qualifying property, machinery and equipment are capitalized.

The gain or loss on the sale or retirement of an item of property, plant and equipment is calculated as the difference between the resources received from sale and the carrying value of the asset, and is recognized in results.

o. Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. Properties which are held as investments mainly include two shopping malls.

Investment property acquired and improvements are recorded at cost, including transaction costs related to the acquisition of assets.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

p. Other assets

Include mainly guarantee deposits, shopping center's operating rights and installation expenses for a new system which is in the testing stage; consequently, they are expected to be amortized once the implementation is concluded.

The shopping center's operating rights are amortized over the term established in the contract. The costs incurred for the installation of a new system, with regard to a recognized intangible asset, are recorded in the financial statements.

q. Impairment of tangible assets

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the value of money over time and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable value amount, so that the increased carrying amount does not exceed the carrying amount that would have resulted if it had not recognized an impairment loss for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized in earnings.

r. Leasing

Leases are classified as financial when the terms of the lease transfer substantially all the risks and benefits inherent to the property to the lessees. All other leases are classified as operating.

The Entity as a tenant

Lease payments are distributed between financial expenses and the reduction of lease obligations in order to achieve a constant interest rate on the remaining balance of the liability. Financial expenses are charged directly to income, unless they can be directly attributable to qualifying assets, in which case they are capitalized in accordance with the Bank's general policy for borrowing costs.

Lease payments for operating leases are charged to income using the straight-line method, during the lease term, unless another systematic basis of distribution is more representative because it reflects more adequately the pattern of lease benefits for the user. Contingent rents are recognized as expenses in the periods in which they are incurred.

s. Statements of cash flows

The indirect method is used for presenting cash flows from operating activities, such that the net consolidated profit is adjusted for changes in operating items not resulting in cash receipts or disbursements, and for items corresponding to cash flows from investing and financing activities. Interest received is presented as an investing activity and operating activity and interest paid is presented as a financing activity.

t. Earnings per share

The basic earnings per common share is calculated by dividing the net consolidated profit attributable to the controlling interest by the weighted average of common outstanding shares during the year.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Entity's accounting policies, which are described in Note 4, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of uncertainty in the estimates

a. Calculation of loss allowance

When measuring ECL the Entity uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

If the ECL rates on trade receivables between 61 and 90 days past due had been 50% higher (lower) as of December 2018, the loss allowance on trade receivables would have been \$ 96,891 million higher (lower).

b. Inventory estimates and accounts receivable allowances - The Entity use estimates to determine inventory and accounts receivable reserves. When calculating inventory reserves, the Entity considers production and sales volumes, as well as the demand for certain products.

c. Property, plant and equipment - The Entity reviews the estimated useful lives of property, plant and equipment at the end of each reporting period, to determine the depreciation of these assets. Asset useful lives are defined according to the technical studies prepared by specialized internal personnel and with the participation of external specialists. The level of uncertainty related to useful life estimates is also linked to market changes and asset utilization based on production volumes and technological development.

d. Investment property - The Entity prepares an annual valuation of investment property with the assistance of independent appraisers. The valuation technique is based on different methods including cost, market and income approaches; the Entity has utilized the income approach. The valuation methodology includes observable assumptions for properties which, while dissimilar, nonetheless involve the same geographic zones and commercial use. The Entity considers the highest and best use of its assets.

The valuation techniques used by the Entity have not been modified in 2018, 2017 and 2016. Entity management considers that the valuation methodologies and assumptions utilized are appropriate for determining the fair value of the Entity's investment properties.

e. Impairment of long-lived assets - The carrying value of noncurrent assets is reviewed to detect indications of impairment; i.e., if certain situations or changing circumstances indicate that carrying values may not be recoverable. If indications of impairment are detected, the Entity performs a review to determine whether the carrying value exceeds its recovery value and is impaired. When applying asset impairment tests, the Entity must estimate the value in use assigned to property, plant and equipment and cash generating units, in the case of certain assets. Value in use calculations require that the Entity determine the future cash flows produced by cash generating units, together with an appropriate discount rate for calculating present value. The Entity utilizes cash flow projections by estimating market conditions, prices, production and sales volumes.

f. Valuation of financial instruments - The Entity uses valuation techniques for its financial instruments which include information that is not always based on an observable market to estimate the fair value of certain financial instruments. Note 11 contains detailed information on the key assumptions used to determine the fair value of the Entity's financial instruments, as well as an in-depth sensitivity analysis of these assumptions. Entity management considers that the valuation techniques and assumptions it has utilized are suitable for determining the fair value of its financial instruments.

g. Contingencies - As the Entity is involved in certain legal proceedings, it evaluates the probability of a payment obligation arising, accordingly, it considers the legal situation in effect at the estimate date and the opinion of its legal advisers; these evaluations are periodically reconsidered.

h. Employee benefits at retirement - The Entity uses assumptions to determine the best annual estimate of these benefits. Like the above assumptions, these benefits are jointly and annually determined in conjunction with independent actuaries. These assumptions include demographic hypotheses, discount rates, expected remuneration increases and future employee tenure, among other items. While the Entity considers that these assumptions are appropriate, any modification in this regard could affect the value of employee benefit assets (liabilities) and the statement of income and other comprehensive income of the period in which any such modification takes place.

6. Non-cash transactions

During 2018, 2017 and 2016, The Entity entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows and are related to the payment of dividends to its shares repurchased during the year, which corresponded to them \$2,616, \$7,120 and \$2,087, respectively.

7. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statements of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	2018	2017	2016
Cash	\$ 1,593,764	\$ 1,155,152	\$ 854,776
Cash equivalents:			
Demand deposits	346,450	–	–
Government paper	9,425	599,635	346,839
Certificates of deposit	525,622	165,250	496,089
Demand deposits in US dollars	346,450	2,951	15,289
Others	1,691	1,613	1,363
	\$ 2,477,658	\$ 1,924,601	\$ 1,714,356

8. Accounts receivable

	2018	2017	2016
Clients	\$ 13,319,951	\$ 13,196,038	\$ 12,531,187
Allowance for doubtful accounts	(698,169)	(509,553)	(375,792)
	12,621,782	12,686,485	12,155,395
Sundry debtors	297,939	493,506	215,491
Due from related parties	91,848	83,911	65,136
Subtotal	13,011,569	13,263,902	12,436,022
Recoverable taxes mainly value added tax and wage tax credit	1,246,317	1,011,699	680,867
	\$ 14,257,886	\$ 14,275,601	\$ 13,116,889

a. Trade accounts receivable

The Entity offers sales promotions through which it grants credit to its customers for different periods which, on average, are 217, 206 and 203 days at December 31, 2018, 2017 and 2016, respectively. In the case of sales promotions with collection periods exceeding one year, the respective accounts receivable are classified as short-term because they form part of the Entity's regular transaction cycle, which is a common industry practice. Maturities exceeding one year are \$1,298,978, \$1,425,061 and \$1,291,061 as of December 31, 2018, 2017 and 2016, respectively.

b. Impairment of financial assets

The IFRS 9 replaces the 'incurred loss' model of IAS 39 with a model of 'expected credit loss' (PCE). The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments to VRCORI, but not to investments in equity instruments.

Under IFRS 9, provisions for losses will be measured using one of the following bases:

General Model - It is recognized in three stages that reflect the potential variation in the credit quality of the asset, taking into account the significant increase in credit risk, as well as the objective evidence of impairment.

Simplified Model - The expected loss for the whole life of the instrument is recognized if it contains a significant financial component, instead of the three stages.

The measurement of the PCE during the life time applies if the credit risk of a financial asset at the reporting date has increased significantly since the initial recognition and the measurement of the expected credit losses of 12 months applies if this risk has not increased. The entity may determine that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk at the reporting date. However, the measurement of expected credit losses over the life time is always applicable for trade accounts receivable and contract assets without a significant financing component. The Entity has chosen to apply this policy for trade accounts receivable and contract assets with a significant financing component.

The Entity measures the estimates of losses for commercial accounts receivable and contract assets always for an amount equal to the expected credit losses during the life time. Additionally, the Entity considers reasonable and sustainable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and analysis, based on the Entity's historical experience and an informed credit assessment, including that related to the future.

c. Measurement of expected credit losses

The expected credit losses are the result of multiplying an exposure amount by a probability of default and a severity of the loss.

The expected credit losses are not discounted using the effective interest rate of the financial asset, since accounts receivable are generally short-term and do not charge interest. It should be mentioned that the maximum period considered when estimating the expected credit losses is the maximum contractual period during which the Entity is exposed to credit risk.

d. Financial assets with credit deterioration

The estimates for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. While, in the case of debt instruments at fair value with changes in other comprehensive income, the estimate is charged to income and recognized in other comprehensive income.

The Entity considers as evidence that a financial asset has credit deterioration when it includes the following observable data:

- Significant financial difficulties observed in the portfolio arrears groups;
- Various default periods and identifying default for more than 1 day or more than 30 days for the portfolio of all Companies.
- The restructuring of accounts or advances by the Entity in terms that it would not consider otherwise;
- It is becoming likely that a segment of the portfolio goes bankrupt or in another form of financial reorganization.

Presentation of the estimate for expected credit losses in the statement of financial position

The loss estimates for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. While, in the case of debt instruments at fair value with changes in other comprehensive income, the loss estimate is charged to income and recognized in other comprehensive income.

e. Penalty

The gross carrying amount of a financial asset is written off [partially or completely] to the extent that there is no realistic possibility of recovery. This is generally the case when the Entity determines that the debtor has no assets or sources of income that could generate sufficient cash flows to pay the amounts subject to the penalty. However, the financial assets that are punished may be subject to legal action in order to comply with the Entity's procedures for the recovery of the amounts owed.

For an explanation of the manner in which the Entity estimated the impact of the impairment under IFRS 9, where credit losses are recognized before under IFRS 9, see Note 3B.

f. Credit risk

Credit risk is the risk that one of the counterparties of the financial instrument causes a financial loss to the other company for breaching an obligation. The Company is subject to credit risk mainly due to financial instruments related to cash and temporary investments, loans and accounts receivable and derivative financial instruments. In order to minimize the credit risk in cash, temporary investments and derivative financial instruments, the Company only involves solvent parties with a recognized reputation and high credit quality.

In order to manage the credit risk, in the case of loans and accounts receivable with consumers, the Company considers that the risk is limited. The Company prepares an allowance for uncollectible accounts under the expected loss model in compliance with IFRS 9.

As of December 31, 2018 and 2017, the maximum exposure to credit risk for commercial debtors and other accounts receivable by concept and / or subsidiaries was as follows:

Concept	Amount in books		Expected credit reserve	
	December 31, 2018	January 1, 2018	December 31, 2018	January 1, 2018
Null	\$ 3,200,667	\$ 3,176,914	\$ 147	\$ -
Low	3,159,668	3,218,336	7,844	12,107
Moderate 1	3,614,954	3,669,406	46,435	64,944
Moderate 2	1,531,401	1,462,957	50,955	56,033
High 1	811,892	737,904	58,975	50,687
High 2	200,994	180,968	32,179	23,658
Critical	800,375	749,553	501,634	413,219
Total	\$ 13,319,951	\$ 13,196,038	\$ 698,169	\$ 620,648

As of December 31, 2018, the book value of the most significant portfolio of the Entity corresponds to the Moderate segment 1, which was \$ 3,614,954 thousand pesos, which is equivalent to 27.14% of the total portfolio, and 6.65% of the registered reserve (\$ 698,169 thousand pesos in 2018). And regarding the reservation the most significant segment is the Critical one with an amount of \$ 501,634 and a percentage of the total reserve of 71.85%

The following is a summary of the Entity's exposure to credit risk of commercial debtors and assets by contract.

Concept	2018		January 1, 2018	
	Without deterioration credit	With deterioration credit	Without deterioration credit	With deterioration credit
Customers	1,990,133	39,063	1,888,495	39,329
Total amount in gross books	\$ 3,200,667	\$ 10,119,284	\$ 3,176,914	\$ 10,019,124
Estimate for credit losses	\$ 147	\$ 698,022	\$ -	\$ 620,648

g. Comparative information under IAS 39

An analysis of the credit quality of commercial debtors that were neither past due nor impaired and the age of past due commercial debtors, but not impaired as of December 31, 2017 is presented below.

Concept	January 1, 2018
Valid and not deteriorated	\$ 10,929,877
Expired but not deteriorated	-
Expired between 1 to 30 days	1,199,325
Expired between 31 to 60 days	475,478
Expired between 61 to 90 days	232,849
Expired between 91 to 120 days	157,892
Expired between 121 to 150 days	100,204
Expired between 151 to 180 days	36,517
Expired between 181 and 210 days	13,602
More than 210 days	50,294
Total non-impaired commercial debtors	\$ 13,196,038

Commercial debtors impaired at 1st. January 2018 had a gross carrying amount of \$ 10,019,124 thousand pesos. Loss due to deterioration of value at 1st. January 2018 is related to the balance of the clients that in the backlog portfolio are in a lag period greater than +90 days for the case of \$ 620,648. In addition, under IAS 39, a model of credit losses incurred was applied, in which the Bank considered the risk of the client's financial situation, unsecured accounts and considerable delays in collection according to the conditions for the doubtful accounts. of established credit. The Entity recognized an allowance for doubtful accounts for 100% of all accounts receivable with high possibilities of non-collection that amounted to \$ 509,553 as of December 31, 2017.

Evaluation of expected credit loss for corporate clients as of January 1 and December 31, 2018

Under the IFRS 9 standard, it is assumed that a financial asset with more than 90 days of default must be considered as past due or in default. "COMPANY" has decided to use as EOD.

Under the general model of IFRS 9, the Company has adopted a criterion based on a prospective analysis of macroeconomic conditions and historical PD. Prospective factors are observable public economic variables that, through statistical methods, allow forecasting or ruling out an increase in the credit risk of the portfolio.

However, in several cases it has been found that the macroeconomic variables do not show significance in the behavior of the portfolios, so it is concluded that the current model is appropriate for the entity's portfolio and line of business. Nevertheless, constant reviews will be carried out in order to adapt the model to any endogenous and exogenous change that motivates a calibration.

The company uses the estimated factors previously described to perform the estimate for expected credit loss.

Evaluation of expected credit loss for corporate clients as of January 1 and December 31, 2018

The model used to determine the credit risks of the customers of each of the Group's business units identifies, individually for each account receivable, the level of indebtedness, the ability to pay, the amount of payment to the principal, the maturity and the

behavior of payments, with which the level of risk that corresponds to it is established and the discount factor with which the financial assets derived from the granting of credit deteriorate.

The following table provides information on the exposure to credit risk and the expected credit losses for commercial debtors and the assets of the individual customer contract as of December 31, 2018 and January 1, 2018.

Concept	Amount in books		Expected credit reserve		Discount factors	
	December 31, 2018	January 1, 2018	December 31, 2018	January 1, 2018	December 31, 2018	January 1, 2018
Null	\$ 3,200,667	\$ 3,176,914	\$ 147	\$ –	0.00%	0.00%
Low	3,159,668	3,218,336	7,844	12,107	0.25%	0.38%
Moderate 1	3,614,954	3,669,406	46,435	64,944	1.28%	1.77%
Moderate 2	1,531,401	1,462,957	50,955	56,033	3.33%	3.83%
High 1	811,892	737,904	58,975	50,687	7.26%	6.87%
High 2	200,994	180,968	32,179	23,658	16.01%	13.07%
Critical	800,375	749,553	501,634	413,219	62.67%	55.13%
Total	\$ 13,319,951	\$ 13,196,038	\$ 698,169	\$ 620,648	5.24%	4.70%

The probabilities of default are based on the actual credit loss experience of recent years. These rates are multiplied by scale factors to reflect the differences between the economic conditions during the period in which the historical data were collected, the current conditions and the Entity's vision of the economic conditions during the expected life of the receivable accounts.

Movements in the estimate for impairment related to the debtors by sales and assets by contract.

The movement in the estimation for impairment of value related to the debtors for sale and other accounts receivable during the year was as follows. The comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

Concept	2018
Balance as of January 1 according to Standard IAS 39	\$ 509,553
Initial application adjustment of IFRS 9	111,095
Balance as of January 1 according to IFRS 9 Standard	620,648
Punished amounts	865,433
Net remeasurement of the estimate for losses	942,954
Balance as of December 31, 2018	\$ 698,169

The estimate for impairment losses in the comparison of NIC 39 and IFRS 9 presents an accumulated increase / decrease of \$ 111,095 thousand pesos, for December 31, 2018, an increase / decrease of \$ 77,521 thousand pesos is presented, product of an increase / decrease in exposure amounts.

9. Inventories

	December 31, 2018	December 31, 2017	December 31, 2016
Merchandise in stores	\$ 12,016,272	\$ 10,456,210	\$ 10,068,647
Goods in transit	222,971	216,177	266,682
Replacement parts and other inventories	119,928	133,644	120,603
	\$ 12,359,171	\$ 10,806,031	\$ 10,455,932

10. Financial risk management

The Entity is exposed to market, operating and financial risks as a result of its use of financial instruments, these include interest rate, credit, liquidity and exchange rate risks, which are managed in a centralized manner by Grupo Sanborns' corporate treasury.

The different financial instrument categories and amounts are detailed below:

	December 31, 2018	December 31, 2017	December 31, 2016
Financial assets			
Cash and cash equivalents	\$ 2,477,658	\$ 1,924,601	\$ 1,714,356
Loans and receivables	12,919,721	13,179,991	12,370,886
Long-term accounts receivable	-	-	10,143
Due from related parties	91,848	83,911	65,136
Financial liabilities			
At amortized cost:			
Payables to suppliers	\$ 9,115,216	\$ 7,505,683	\$ 7,166,771
Other payables and accrued liabilities	543,264	525,771	466,496
Due to related parties	803,382	498,291	518,388

The Board of Directors establishes and monitors the policies and procedures used to measure risks, which are described below:

- a. Capital risk management** - The Entity manages its capital to ensure that it will continue as a going concern, while it maximizes returns to its shareholders through the optimization of the balances of debt and equity. The general strategy of the Entity has not been modified compared to 2017.

The capital structure of the Entity is composed by its net debt (mainly the related party debt detailed in Note 19) and stockholders' equity (issued capital, capital reserves, accumulated earnings and non-controlling equity detailed in Note 18). The Entity is not subject to any kind of capital requirement.

Management reviewed monthly its capital structure and borrowing costs and their relation to EBITDA (defined in this case as earnings before taxes, interest, exchange rate fluctuations, valuation of derivative financial instruments, depreciation and amortization) in connection with the preparation of financial projections as part of the business plan submitted to the Board of Directors and Shareholders.

The Entity's policy is to maintain a net debt ratio of no more than three times EBITDA, determined as the ratio of net debt to EBITDA of the last 12 months. See Note 27.

Considering that the Entity has no financial debt it is not applicable to the determination of the debt and interest coverage.

- b. Market risk** - The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Entity enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

Exposure to market risk is measured using sensitivity analysis. There have been no changes in exposure to market risks or the manner in which those risks are being managed and measured.

- c. Interest rate risk management** - The Entity is exposed to interest rate risks from customer loans and financial debt contracted at variable rates. However, it manages this risk through an adequate combination of fixed and variable interest rates.

The Entity's exposure to interest rate risks is primarily based on the Mexican Interbank Equilibrium Offered rate (TIIE) applicable to financial liabilities and its customer portfolio. Accordingly, it periodically prepares a sensitivity analysis by considering the cost of the net exposure from its customer portfolio and financial liabilities derived that earn and bear interest at variable interest rates; it also prepares an analysis based on the amount of outstanding credit at the end of the period.

If benchmark interest rates had increased and/or decreased by 100 basis points in each reporting period and all other variables had remained constant, the pretax profit of 2018, 2017 and 2016 would have increased or decreased by approximately \$28,549, \$37,691 and \$44,623, respectively. At December 31, 2018, 2017 and 2016 there would be no impact on other comprehensive income because no derivative financial instruments outstanding at that date were recorded as trading, directly affecting the result of the year.

- d. Exchange risk management** - The functional currency of the Entity is the Mexican peso, accordingly, it is exposed to currency risk Mexican peso against U.S. dollar that arises in connection with retail operations and financing, in this case, currency forwards are entered into in order to hedge such operations, when considered convenient.

The carrying values of monetary assets and liabilities denominated in foreign currency and which primarily generate exposure for the Entity at the end of the reporting period are as follows (figures in thousands):

	Liabilities				Assets	
	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2018	December 31, 2017	December 31, 2016
US Dollar	26,486	25,291	29,772	–	26,386	30,818

The following table indicates the Entity's sensitivity to a 10% increase or decrease of the Mexican peso versus the US dollar. This percentage is the sensitivity rate used to internally report the exchange rate risk to key management personnel and also represents management's evaluation of the possible fair value change to exchange rates. The sensitivity analysis only includes monetary items denominated in foreign currency and adjusts their conversion at the end of the period by applying a 10% fluctuation; it also includes external loans. A negative or positive figure, respectively (as detailed in the following table), indicates a (decrease) or increase in net income derived from a decrease in the value of the Mexican peso of 10% with regard to the US dollar (figures in thousands):

	December 31, 2018	December 31, 2017	December 31, 2016
Mexican pesos	12,144	2,161	2,161

- e. Credit risk management** - The credit risk refers to the situation in which the borrower defaults on its contractual obligations, thereby generating a financial loss for the Entity and which is essentially derived from customer accounts receivable and liquid funds. The credit risk affecting cash and cash equivalents and derivative financial instruments is limited because the counterparties are banks with high credit ratings issued by credit rating agencies. The Entity's maximum credit risk exposure is represented by the balance in the statement of financial position. The other exposure to credit risk is represented by the balance of each financial asset mainly in trade accounts receivable. The Entity sells its products and / or services to customers who have demonstrated their economic, and periodically evaluates the financial condition of its customers and has insurance billing for domestic and export sales. Therefore, the Entity does not believe there is a significant risk of loss due to a concentration of credit in its customer base in the retail sector, as they are diluted by than 1,927,824 customers, which do not represent a concentration of risk. The Entity also believes that potential credit risk is adequately covered by its allowance for doubtful accounts, which represents its estimate of incurred losses related to impairment of accounts receivable (see Note 8).
- f. Liquidity risk management** - Corporate treasury has the ultimate responsibility for liquidity management, and has established appropriate policies to control this through monitoring of working capital, managing short, medium and long-term funding requirements, maintaining cash reserves and available credit lines, continuously monitoring cash flows (projected and actual), and reconciling the maturity profiles of financial assets and liabilities.

The following table details the remaining contractual maturities of the Entity's non-derivative financial liabilities, based on contractual repayment periods.

The Entity expects to meet its obligations with cash flows from operations and resources received from the maturity of financial assets.

Additionally, the Entity has access to credit lines with various banks and debt securities programs.

As of December 31, 2018	3 months	6 months	Total
Trade accounts payable	\$ 9,049,470	\$ 65,746	\$ 9,115,216
Other accounts payable and accrued liabilities	543,264	–	543,264
Due to related parties	803,382	–	803,382
Total	\$ 10,396,116	\$ 65,746	\$ 10,461,862

As of December 31, 2017	3 months	6 months	Total
Trade accounts payable	\$ 7,378,837	\$ 126,846	\$ 7,505,683
Other accounts payable and accrued liabilities	525,771	–	525,771
Due to related parties	498,291	–	498,291
Total	\$ 8,402,899	\$ 126,846	\$ 8,529,745

As of December 31, 2016	3 months		6 months		Total	
Trade accounts payable	\$	7,059,269	\$	107,502	\$	7,166,771
Other accounts payable and accrued liabilities		466,496		–		466,496
Due to related parties		518,388		–		518,388
Total	\$	8,044,153	\$	107,502	\$	8,151,655

11. Fair value of financial instruments

The Entity does not have instruments that are measured at fair value on a recurring basis.

This note provides information about the fair value of financial assets and liabilities not carried at fair value steadily (but fair value disclosures required).

Except as detailed in the table below, management believes that the carrying amounts of assets and liabilities recognized at amortized cost in the financial statements, approximates their fair value.

The Entity calculates the fair value of accounts receivable since much of its sales are made through the revolving credit extended to customers. Fair value is calculated using the information available in the market or other valuation techniques which require judgment to develop and interpret the estimates of fair values also makes assumptions that are based on market conditions existing at each of the dates of the statement of financial position. Consequently, the estimated amounts presented are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different assumptions and / or estimation methods may have a material effect on the estimated fair value amounts presented below for disclosure purposes only.

The carrying amounts of financial instruments by category and their estimated fair values are as follows:

	December 31, 2018		December 31, 2017		December 31, 2016	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Financial assets:						
Cash and cash equivalent	\$ 2,477,658	\$ 2,477,658	\$ 1,924,601	\$ 1,924,601	\$ 1,714,356	\$ 1,714,356
Notes and accounts receivables:						
Accounts receivable to customers and other	13,011,569	13,719,307	13,263,902	14,075,947	12,436,022	13,119,236
Accounts and notes payable:						
Trade accounts payable	9,115,216	9,115,216	7,505,683	7,505,683	7,166,771	7,166,771
Other accounts payable and accrued liabilities	543,264	543,264	525,771	525,771	466,496	466,496
Due to related parties	803,382	803,382	498,291	498,291	518,388	518,388
Total	\$ 5,027,365	\$ 5,735,103	\$ 6,658,758	\$ 7,470,803	\$ 5,998,723	\$ 6,681,937

12. Property, plant and equipment

Following is a reconciliation between the carrying amount at the beginning and end of the year 2018, 2017 and 2016:

	Balances as of December 31, 2017	Additions	Retirements / disposals	Exchange differences on translation	Impairment	Transfers	Balances as of December 31, 2018
Investment:							
Buildings, leasehold improvements and constructions	\$ 12,582,952	\$ 338,427	\$ (194,604)	\$ (389)	\$ -	\$ 852,879	\$ 13,579,265
Machinery and equipment	3,139,152	10,211	(50,586)	(25,840)	-	276,922	3,349,859
Furniture and fixtures	5,843,939	198,529	(100,064)	2,771	-	417,801	6,362,976
Vehicles	340,313	37,706	(33,740)	944	-	-	345,223
Computers	1,389,753	62,526	(14,187)	21,327	-	20,246	1,479,665
Total investment	23,296,109	647,399	(393,181)	(1,187)	-	1,567,848	25,116,988
Accumulated depreciation:							
Buildings, leasehold improvements and constructions	(5,951,063)	(444,835)	89,755	4,198	15,836	-	(6,286,109)
Machinery and equipment	(1,894,482)	(187,606)	40,422	19,552	1,986	-	(2,020,128)
Furniture and fixtures	(3,481,388)	(497,863)	79,693	(4,871)	5,775	-	(3,898,654)
Vehicles	(258,740)	(37,673)	31,560	(874)	-	-	(265,727)
Computers	(1,086,805)	(101,614)	12,099	(17,453)	(422)	-	(1,194,195)
Total accumulated depreciation	(12,672,478)	(1,269,591)	253,529	552	23,175	-	(13,664,813)
Subtotal	10,623,631	(622,192)	(139,652)	(635)	23,175	1,567,848	11,452,175
Land	2,706,763	3,268	-	-	-	-	2,710,031
Construction in progress	1,187,453	767,683	-	-	-	(1,567,848)	387,288
Net investment	\$ 14,517,847	\$ 148,759	\$ (139,652)	\$ (635)	\$ 23,175	\$ -	\$ 14,549,494

	Balances as of December 31, 2017	Additions	Retirements / disposals	Exchange differences on translation	Impairment	Balances as of December 31, 2017
Investment:						
Buildings, leasehold improvements and constructions	\$ 12,344,652	\$ 324,778	\$ (78,461)	\$ (8,017)	\$ -	\$ 12,582,952
Machinery and equipment	2,969,988	233,837	(62,013)	(2,660)	-	3,139,152
Furniture and fixtures	5,577,706	310,367	(37,330)	(6,804)	-	5,843,939
Vehicles	325,467	31,425	(15,780)	(799)	-	340,313
Computers	1,267,246	126,598	(7,263)	3,172	-	1,389,753
Total investment	22,485,059	1,027,005	(200,847)	(15,108)	-	23,296,109
Accumulated depreciation:						
Buildings, leasehold improvements and constructions	(5,553,317)	(433,957)	57,983	(209)	(21,563)	(5,951,063)
Machinery and equipment	(1,777,450)	(162,257)	49,214	(75)	(3,914)	(1,894,482)
Furniture and fixtures	(3,009,994)	(511,965)	37,240	9,203	(5,872)	(3,481,388)
Vehicles	(233,516)	(40,114)	13,288	1,602	-	(258,740)
Computers	(1,002,854)	(90,788)	7,000	(163)	-	(1,086,805)
Total accumulated depreciation	(11,577,131)	(1,239,081)	164,725	10,358	(31,349)	(12,672,478)
Subtotal	10,907,928	(212,076)	(36,122)	(4,750)	(31,349)	10,623,631
Land	2,716,672	68,954	(78,863)	-	-	2,706,763
Construction in progress	775,991	487,738	(76,276)	-	-	1,187,453
Net investment	\$ 14,400,591	\$ 344,616	\$ (191,261)	\$ (4,750)	\$ (31,349)	\$ 14,517,847

	Balances as of December 31, 2017	Additions	Retirements / disposals	Exchange differences on translation	Impairment	Balances as of December 31, 2016
Investment:						
Buildings, leasehold improvements and constructions	\$ 11,341,784	\$ 997,600	\$ (22,064)	\$ 27,332	\$ –	\$ 12,344,652
Machinery and equipment	2,679,571	287,122	(7,306)	10,601	–	2,969,988
Furniture and fixtures	4,726,357	850,180	(14,372)	15,228	313	5,577,706
Vehicles	307,359	32,132	(16,537)	681	–	323,635
Computers	1,104,125	166,333	(4,060)	2,680	–	1,269,078
Total investment	20,159,196	2,333,367	(64,339)	56,522	313	22,485,059
Accumulated depreciation:						
Buildings, leasehold improvements and constructions	(5,143,929)	(405,180)	10,041	(14,249)	–	(5,553,317)
Machinery and equipment	(1,641,224)	(134,401)	5,742	(7,567)	–	(1,777,450)
Furniture and fixtures	(2,541,629)	(464,005)	8,007	(12,367)	–	(3,009,994)
Vehicles	(198,238)	(40,349)	11,396	(1,041)	–	(228,232)
Computers	(947,366)	(64,525)	5,523	(1,770)	–	(1,008,138)
Total accumulated depreciation	(10,472,386)	(1,108,460)	40,709	(36,994)	–	(11,577,131)
Subtotal	9,686,810	1,224,907	(23,630)	19,528	313	10,907,928
Land	2,448,051	268,911	(290)	–	–	2,716,672
Construction in progress	473,626	302,365	–	–	–	775,991
Net investment	\$ 12,608,487	\$ 1,796,183	\$ (23,920)	\$ 19,528	\$ 313	\$ 14,400,591

13. Investment properties

	2018	2017	2016
Fair value for investment properties	\$ 2,323,901	\$ 2,323,901	\$ 2,207,946

The changes in investment properties are as follows:

	2018	2017	2016
Balance at beginning of period	\$ 2,323,901	\$ 2,207,946	\$ 2,086,228
Gain on property revaluation	91,652	115,955	121,718
Balance at end of period	\$ 2,415,553	\$ 2,323,901	\$ 2,207,946

All investment properties of Grupo Sanborns are held under freehold.

Grupo Sanborns is based on appraisals performed by independent experts with qualifications and relevant experience in the locations and categories of investment properties it holds.

The valuation techniques considered under the following different approaches:

The income approach is widely used in real estate valuation it applies to assets of a commercial nature. With the income approach, the appraiser based the value of the property in future income that the property might reasonably create. The appraiser extrapolates the future revenue of the property and deducts that amount to reach a present value reflecting the amount that a hypothetical buyer would pay to a hypothetical seller for the property.

In the market approach (comparable sales) the appraiser looks at recent sales with similar properties (comparable) to indicate the value of the asset. If there are no active subjects identical to comparable sales prices of comparable adjusted to match them to the characteristics of the subject asset.

In the cost approach the appraiser estimates the value of the asset compared to the cost of producing a new individual asset or a replacement property, which suggests the market as appropriate. The cost compared to the value of existing assets and is adjusted for differences in age, condition and value for the comparable asset. In its simplest form, the cost approach is represented by the net replacement value less all depreciation rates. Depreciation for valuation purposes is defined as the difference in value between real property and a new hypothetical property, taken as a basis of comparison.

The value of the asset can be estimated by expected future profits to its owner.

Key metrics for all investment properties are shown below:

Type of property	Recommended ranges for capitalization rates	
	Low	Maxim
Shops	7.4%	8.9%

The Entity has two shopping malls, Loreto and Inbursa located in Mexico City, which generate rental income that is recognized as leasing services amounting to \$231,370, \$218,734 and \$203,416 for the years ended December 31, 2018, 2017 and 2016 respectively. At December 31, 2018, 2017 and 2016 the occupancy rate of shopping centers is 92%, 95% and 96%, respectively.

Direct operating expenses including maintenance costs incurred in relation to the investment property are recognized in income amounting, approximately 37%, 34% and 33% of rental income for years ended December 31, 2018, 2017 and 2016, respectively.

There has been no change in valuation technique during the year.

The estimated fair value of the properties considered the highest and best use of the properties is its current use.

The following information is relevant to investment properties classified as Level 3 hierarchy:

	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
		Capitalization rate, taking into account the capitalization of rental income potential, nature of the property, and prevailing market condition, of 7.4% - 8.9%, of 7.0% -8.9%, and of 7.1% - 8.8% in 2018, 2017 and 2016, respectively.	A slight increase in the capitalization rate used would result in a significant rate used would result in a significant rate used would result in a significant versa. A variation of minus 50 basis points would result in an increase in its fair value of \$161,037 and an increase of 50 points would result in a decrease in its fair value of \$142,092.
Commercial units located in Mexico City	Income capitalization approach	Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, at an average of \$346, \$330 and \$312 Mexican pesos per square meter ["sqm"] per month in 2018, 2017 and 2016, respectively. A significant increase in the market rent used would result in a significant increase in fair value, and back.	

14. Investment in shares of associates

The principal associated entity and its priority activity is the following:

Associated	2018	Ownership percentage		Location	Activity	
		2017	2016			
Inmuebles SROM, S.A. de C.V.	14.00	14.00	14.00	Mexico	Leasing	
	Inversion in shares			Participation in profit or loss		
	2018	2017	2016	2018	2017	2016
Inmuebles SROM, S.A. de C.V. ⁽¹⁾	\$ 2,272,600	\$ 2,085,512	\$ 1,912,219	\$ 187,088	\$ 173,293	\$ 89,992
Otras	\$ 1,317	1,317	1,317	-	-	-
Total	\$ 2,273,917	\$ 2,086,829	\$ 1,913,536	\$ 187,088	\$ 173,293	\$ 89,992

⁽¹⁾ Regarding Inmuebles SROM, the Entity has significant influence for having a representative on the Board of Directors, considering its 14% participation.

15. Other accounts payable and accrued liabilities

	2018	2017	2016
Taxes payable	\$ 2,111,969	\$ 2,159,011	\$ 1,765,638
Advertising	181,796	488,313	438,527
Maintenance contracts	168,888	169,373	184,357
Loyalty program	148,920	150,325	137,993
Unfilled orders	52,041	65,315	68,301
Leases	102,712	98,200	79,350
Electronics wallets	62,887	52,373	41,228
Electric power	108,348	74,742	57,991
Sundry creditors	543,264	525,771	466,496
Others	403,431	573,064	614,755
	\$ 3,884,256	\$ 4,356,487	\$ 3,854,636

16. Provisions

The provisions presented below, represent accrued expenses during 2018, 2017 and 2016, expenses or contracted services attributable to the period, which are expected to be settled within a period not exceeding one year. The final amounts to be paid and the timing of any outflow of economic resources involve uncertainty and therefore may vary.

	2018	2017	2016
Opening balance	\$ 125,708	\$ 102,292	\$ 59,663
Additions	72,579	56,935	65,941
Provision applied and writeoffs	(69,022)	(33,519)	(23,312)
Closing balance	\$ 129,265	\$ 125,708	\$ 102,292

17. Retirement employee benefits

The Entity has plans for retirement, death or total disability payments for non-union employees in most of its subsidiaries. The defined benefit plans are administered by a legally separate fund of the Entity. The board of the pension fund is comprised of an equal number of representatives of both employer and (former) employees. The board of the pension fund is required according to the law and the articles of association to act in the interests of the Fund and all interested parties, active and inactive employees, retirees and employer. The board of the pension fund is responsible for investment policy in relation to the assets of the fund.

The Entity manages a plan that also covers seniority premiums for all staff working in Mexico, consisting of a single payment of 12 days per year worked based on final salary, not to exceed twice the minimum wage established by law.

Under these plans, employees are entitled to retirement benefits that add to the statutory pension are similar to final salary upon reaching the retirement age of 65. Other postretirement benefits are awarded.

The plans typically expose the Entity to actuarial risks as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.

Interest risk A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

No other post- retirement benefits are provided to these employees.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation were made as of December 31, 2018 with information referring to October 31, 2018, by independent actuaries who are members of the Asociación Mexicana de Actuarios Consultores, A.C. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2018 %	2017 %	2016 %
Discount rate	9.64	7.95	7.76
Expected rate of salary increase	6.87	4.68	4.43
Expected return on plan assets	9.64	7.95	7.76
Age for current pensioners (years)			
Males	65	65	65
Females	65	65	65

Items of defined benefit costs recognized in other comprehensive income.

	2018	2017	2016
Remeasurement on the net defined benefit liability:			
Actuarial (profit)/losses on return on plan assets excluding amounts included in net interest expense	\$ (177,403)	\$ 166,035	\$ (155,579)
Actuarial (profit)/losses arising from changes in demographic assumptions	(108,407)	(15,765)	(101,320)
Actuarial (profit)/losses arising from changes in financial assumptions	240,935	(79,574)	82,814
Other actuarial (profit)/losses for experience	119,668	(60,405)	95,113
Items of defined benefit costs recognized in other comprehensive income	\$ 74,793	\$ 10,291	\$ (78,972)

The amount included in the consolidated statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	2018	2017	2016
Present value of funded defined benefit obligation	\$ (1,958,895)	\$ (2,055,562)	\$ (1,731,011)
Fair value of plan assets	2,439,747	2,438,438	2,093,556
Surplus	\$ 480,852	\$ 382,876	\$ 362,545
Net assets arising from defined benefit obligation	\$ 537,346	\$ 628,112	\$ 504,551
Net liabilities arising from defined benefit obligation.	(56,494)	(245,236)	(142,006)
	\$ 480,852	\$ 382,876	\$ 362,545

Movements in the present value of the defined benefit obligation in the current year:

	2018	2017	2016
Opening defined benefit obligation	\$ 2,055,562	\$ 1,731,011	\$ 1,688,580
Current service cost	101,394	87,162	84,881
Cost (income) interest	148,169	131,634	116,504
Remeasurement (gains)/losses:			
Actuarial (gains) and losses arising from changes in demographic assumptions	111,716	16,562	101,320
Actuarial (gains) and losses arising from changes in financial assumptions	(248,290)	85,570	(82,814)
Other (actuarial losses or (gains) from experience)	(123,321)	60,584	(95,113)
Past service cost includes	8,767	4,539	906
Actuarial losses/(gains) on liquidations or reductions	-	84	-
Benefits paid	(95,102)	(61,584)	(83,253)
Closing defined benefit obligation	\$ 1,958,895	\$ 2,055,562	\$ 1,731,011

Movements in the fair value of the plan assets in the current year were as follows:

	2018	2017	2016
Opening fair value of plan assets	\$ 2,438,438	\$ 2,093,556	\$ 2,109,558
Interest income	190,246	159,884	146,150
Remeasurement gains/(losses):			
Return on plan assets (excluding amounts included in net interest expense)	(182,817)	171,312	(155,579)
Entity contributions	88,552	74,714	75,774
Transfers of personnel	-	-	906
Benefits paid	(94,672)	(61,028)	(83,253)
Closing fair value of plan assets	\$ 2,439,747	\$ 2,438,438	\$ 2,093,556

The current service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss. The amount of expenditure 2018 (current working service cost) included \$35,510 and \$56,191 in the income statement as selling expenses and administrative expenses, respectively, the statement of income also includes interest income of \$159,884.

The remeasurement of the net defined benefit liability is included in other comprehensive income

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by \$286,245 (increase by \$235,050).

If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would increase by \$143,888 (decrease by \$126,921)

If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by \$19,418 (decrease by \$18,199).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Financial Highlights

Relevant aspects of the valuation as of December 31, 2018 are as follows:

The main strategic decisions that are made in the technical document of actuarial policy of the Fund are:

Asset mix based on 47% equity instruments and 53% debt instruments.

The average duration of the benefit obligation as of December 31, 2018 is 12.90 years, 2017 is 14.77 years and 15.01 years in 2016.

The Entity expects to make a contribution of \$85,474 to the defined benefit plans during the next financial year.

The major categories of plan assets are:

	2018 %	2017 %	2016 %	Fair value		
				2018	2017	2016
Equity instruments	47%	47%	55%	\$ 1,136,448	\$ 1,149,174	\$ 1,211,333
Debt instruments	53%	53%	45%	\$ 1,276,449	\$ 1,278,628	\$ 990,834

The actual return on plan assets amounted to \$190 million, \$160 million and \$146 million in 2018, 2017 and 2016, respectively.

Employee benefits granted to key management personnel and / or directors of the Entity were as follows:

	2018	2017	2016
Short term benefits	\$ 62,392	\$ 54,969	\$ 58,177
Defined benefit plans	87,403	76,795	62,828

18. Stockholders' equity

a. The historical amount of issued and paid-in common stock of Grupo Sanborns as of December 31, 2018, 2017 and 2016 is as follows:

	2018		2017		2016	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Series B1 historical	2,382,000,000	\$ 2,039,678	2,382,000,000	\$ 2,039,678	2,382,000,000	\$ 2,039,678
Treasury shares	(117,109,137)	(59,628)	(101,793,895)	(49,493)	(80,977,019)	(35,718)
Serie B1	2,264,890,863	\$ 1,980,050	2,280,206,105	\$ 1,990,185	2,301,022,981	\$ 2,003,960

Common stock consists of ordinary, nominative shares with no par value. Series B1 shares represent fixed capital, while Series B2 shares represent variable capital, which is unlimited; these shares can be freely subscribed.

- b. During the Stockholders' Ordinary General Meeting held on April 26, 2018, the stockholders declared the payment of a cash dividend from the net taxable income account CUFIN (by its acronym in Spanish) as of December 31, 2013, in the amount of \$2,042,833 at a rate of \$ 0.90 per each of the 2,269,814,940 shares subscribed and paid, without considering the 112,185,060 shares in Treasury on April 25, 2018. They were paid in two payments of \$ 0.20 per share, the first payment on June 20 and the second on December 20, 2018, against delivery of coupon 11 and 12, respectively.
- c. During 2017, 15,315,242 shares have been repurchased for \$300,967, which affects common stock by \$10,135 and accumulated earnings by \$290,832.
- d. During the Stockholders' Ordinary General Meeting held on April 26, 2017, the stockholders declared the payment of a cash dividend from the net taxable income account CUFIN (by its acronym in Spanish) as of December 31, 2013, in the amount of \$2,022,278 at a rate of \$ 0.88 per each of the 2,298,043,075 shares subscribed and paid, without considering the 83,956,925 shares in Treasury on April 25, 2018. They were paid in two payments of \$ 0.44 per share, the first payment on June 20 and the second on December 20, 2018, against delivery of coupon 9 and 10, respectively.
- e. During 2017, 20,816,876 shares have been repurchased for \$424,063, which affects common stock by \$13,775 and accumulated earnings by \$410,287.

- f. During the Stockholders' Ordinary General Meeting held on April 22, 2016, the stockholders declared the payment of a cash dividend from the net taxable income account CUFIN (by its acronym in Spanish) as of December 31, 2013, in the amount of \$ 1,982,906 at a rate of \$ 0.86 per each of the 2,305,704,569 shares subscribed and paid, without considering the 76,295,431 shares in Treasury on April 21, 2017. They were paid in two payments of \$ 0.43 per share, the first payment on May 30 and the second on December 19, 2016 against delivery of coupon 7 and 8, respectively.
- g. During 2016, 9,948,472 shares have been repurchased for \$235,891, which affects common stock by \$6,584 and accumulated earnings by \$229,307.
- h. Stockholders' equity, except restated paid-in capital and tax accumulated earnings, will be subject to income tax payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.
- i. An additional 10% income tax is applied to dividends paid when they are distributed to individuals and foreign residents. Such tax is withheld and paid by the stockholder. Tax treaties may apply to foreigners. This tax is applicable to the distribution of profits generated as of 2014.
- j. The balances of the stockholders' equity tax accounts as of December 31 are:

	2018	2017	2016
Contributed capital account	\$ 16,646,126	\$ 16,182,112	\$ 15,561,309
Consolidated net tax income account	5,836,691	6,231,645	6,283,944
Total	\$ 22,482,817	\$ 22,413,757	\$ 21,845,253

19. Transactions and balances with related parties

- a. Balances receivable and payable with related parties are as follows:

	2018	2017	2016
Receivable -			
Radiomóvil Dipsa, S.A. de C.V.	\$ 41,268	\$ 25,953	\$ 20,814
Teléfonos de México, S.A.B. de C. V.	26,795	18,873	21,000
Banco Inbursa, S.A. de C.V.	205	6,802	-
Nacional de Conductores Eléctricos, S.A. de C.V.	3,696	3,367	3,115
Grupo Técnico de Servicios Telvista, S. A. de C. V	4,843	3,811	2,873
Pase, Servicios Electrónicos, S.A. de C.V.	2,432	-	-
Impulsora Turística de Tabasco, S.A. de C.V.	1,624	-	-
Seguros Inbursa, S.A. de C. V.	1,386	5,528	2,424
I+D México, S.A. de C. V	-	3,109	2,168
Hipocampo, S.A. de C.V	27	1,368	1,097
Operadora de Sites Mexicanos, S.A. de C.V	1,271	1,585	913
Administración Especializada Integral, S.A. de C.V.	-	-	796
Servicios Corporativos Ideal, S.A de C.V.	224	293	643
Nacobre Servicios Administrativos, S.A. de C.V	412	457	555
Administradora y Operadora de Estacionamientos Ideal, S.A. de C.V.	443	443	443
Industrial Afiliada, S.A. de C.V.	278	363	268
Imsalmar, S.A. de C.V.	422	327	196
Promotora del Desarrollo de América Latina, S.A. de C.V.	32	11	76
Compañía de Servicios Ostar, S.A. de C.V.	11	3	72
Nacional de Cobre, S.A. de C.V.	47	38	49
Patrimonial Inbursa, S.A. de C.V.	23	-	-
Bienes Raíces de Acapulco, S.A. de C.V.	-	954	-
Others	5,643	10,626	7,634
	\$ 91,848	\$ 83,911	\$ 65,136

	2018	2017	2016
Payable -			
Radiomóvil Dipsa, S.A. de C.V.	\$ 480,318	\$ 264,059	\$ 310,871
Sears Brands Management Corporation	83,476	79,936	97,416
Inmose, S.A. de C.V.	47,659	31,368	31,233
Anuncios en Directorio, S.A. de C.V.	1,061	11,701	14,595
Conglomerado de Medios Interna, S.A. de C.V.	-	11,065	-
Teléfonos de México, S.A.B. de C.V.	3,976	4,821	11,162
Inmuebles Srom, S.A. de C.V.	42,139	14,301	7,214
Plaza Carso II, S.A. de C.V.	9,638	7,398	6,048
Bicicletas de México, S.A. de C.V.	3,107	2,806	5,807
Dorians Tijuana, S.A. de C.V.	-	-	-
Consortio Red Uno, S.A. de C.V.	7,325	5,138	5,530
Bienes Raíces de Acapulco, S.A. de C.V.	3,735	2,214	4,110
Inversora Bursátil, S.A. de C.V.	1,604	18,869	-
Servicios Condomex, S.A. de C.V.	40	100	-
Desarrollos Sagesco, S.A. de C.V.	7,627	6,223	4,017
Selmec Equipos Industriales, S.A. de C.V.	3,976	4,478	3,509
Emprendedora Administrativa, S.A. de C.V.	-	5,674	-
América Móvil, S.A.B. de C.V.	2,291	3,211	2,407
Claro Video, Inc.	7,230	2,182	1,752
Concesionaria Etram Cuatro Caminos, S.A. de C.V.	5,545	3,115	-
Grupo Telvista, S.A. de C.V.	1,148	2,601	-
Telecomunicaciones Controladora de Servicios, S.A. de C.V.	-	-	1,050
Bajasur, S.A. de C.V.	7,667	1,307	798
Carso Global Telecom, S.A. de C.V.	497	497	-
Banco Inbursa, S.A. de C.V.	758	1,407	958
Distribuidora Telcel, S.A. de C.V.	-	-	-
Inmuebles General, S.A. de C.V.	804	1,107	-
Seguros Inbursa, S.A. de C.V.	-	291	-
Others	8,893	12,422	9,911
	\$ 803,382	\$ 498,291	\$ 518,388

Outstanding amounts are not guaranteed and will be settled in cash. No guarantees have been granted or received. No expenses have been recognized in the current or prior periods for bad debts or doubtful accounts regarding amounts owed by related parties.

b. Transactions with related parties, carried out in the ordinary course of business, were as follows:

	2018	2017	2016
Sales -			
Seguros Inbursa, S.A.	\$ 59,649	\$ 49,300	\$ 44,433
Grupo Telvista, S.A. de C.V.	27,802	26,540	24,771
Nacional de Conductores Eléctricos, S.A. de C.V.	22,348	21,057	20,111
Outsourcing Inburnet, S.A. de C.V.	20,362	-	-
Radiomóvil Dipsa, S.A. de C.V. ⁽¹⁾	45,314	[13,457]	7,087
Teléfonos de México, S.A.B. de C.V.	12,296	5,577	5,516
Sociedad Financiera Inbursa, SOFOM E.R.	8,745	-	-
Nacobre Servicios Administrativos, S.A. de C.V.	8,243	8,203	7,128
Hipocampo, S.A. de C.V.	6,569	3,870	3,059
Constructora Terminal Valle de México, S.A. de C.V.	4,400	-	-
América Móvil, S.A.B. de C.V.	3,548	-	-
Latam Servicios Integrales, S.A. de C.V.	3,087	-	-
Arneses Eléctricos Automotrices, S.A. de C.V.	2,983	-	-
Administradora de Personal de Centros Comerciales, S.A. de C.V.	2,565	-	-
Banco Inbursa, S.A.	32	253	74
Sales [others]	31,052	28,550	29,175
Total	\$ 264,261	\$ 129,893	\$ 141,354

⁽¹⁾ Beginning 2016, the Entity ceased to recognize as revenue the total sale of cell phones, which were placed through the form of the rate plan and its respective cost of sales which represented the inventory's cost. Currently, the Entity only recognizes a commission equal to the profit from the sale of cell phones in previous years, due to the changes made to contracts with the supplier.

	2018	2017	2016
Interests received	\$ 14,157	\$ 8,575	\$ 14,885
Lease income -			
Teléfonos de México, S.A.B. de C.V.	\$ 9,934	\$ 9,336	\$ 8,941
Radiomóvil Dipsa, S.A. de C.V.	12,882	9,298	8,662
I+D México, S.A. de C.V.	5,205	5,152	4,941
Banco Inbursa, S.A.	5,541	4,751	4,766
Servicios Swecomex, S.A. de C.V.	-	-	3,249
Operadora de Sites Mexicanos, S.A. de C.V.	2,819	2,529	2,660
Laboratorio Médico Polanco, S.A. de C.V.	1,085	1,010	-
Lease income (others)	2,845	3,431	2,082
Total	\$ 40,311	\$ 35,507	\$ 35,301
Service revenues -			
Radiomóvil Dipsa, S.A. de C.V.	\$ 103,584	\$ 164,282	\$ 232,951
Clarovideo Inc. (Antes DLA, Inc.)	133,314	109,573	43,361
Banco Inbursa, S.A.	32,884	36,985	34,621
Teléfonos de México, S.A.B. de C.V.	1,073	10,307	19,745
Patrimonial Inbursa, S.A.	4,488	12,372	13,416
Seguros Inbursa, S.A.	4,546	12,098	12,180
Hipocampo, S.A. de C.V.	-	4,594	4,216
Outsourcing Inburnet, S.A. de C.V.	-	12,946	5,563
Grupo Telvista, S.A. de C.V.	-	5,625	5,080
I+D México, S.A. de C.V.	-	2,866	3,078
Insalmar, S.A. de C.V.	-	639	-
Sociedad Financiera Inbursa, S.A. de C.V.	-	5,098	7,590
Fundación Telmex, A.C.	-	1,873	-
América Móvil, S.A.B. de C.V.	-	326	-
Service revenues (others)	7,600	7,506	8,877
Total	\$ 295,671	\$ 387,090	\$ 390,678
Income from sale of fixed assets	\$ 2,965	\$ 459	\$ 272
Inventory purchases -			
Sears Brands Management Corporation	\$ (1,084)	\$ (140,375)	\$ (268,823)
Radiomóvil Dipsa, S.A. de C.V.	(98,261)	42,257	(148,127)
América Móvil, S.A.B. de C.V.	(96,968)	(113,360)	(133,754)
Acer Computer México, S.A. de C.V.	(7,266)	-	-
Escaleras, S. de R.L. de C.V.	(6,955)	-	-
Grupo Telvista, S.A. de C.V.	(3,085)	(7,763)	-
Teléfonos de México, S.A.B. de C.V.	(204)	(2,209)	(40,899)
Bicicletas de México, S.A. de C.V.	(6,051)	(5,771)	(8,438)
Inventory purchases (others)	(7,463)	(15,807)	(22,393)
Total	\$ (227,337)	\$ (243,028)	\$ (622,434)
Insurance expenses with Seguros Inbursa, S.A.	\$ (124,480)	\$ (105,879)	\$ (124,641)

20. Revenue

	2018	2017	2016
Sale of goods	\$ 46,560,437	\$ 44,803,041	\$ 43,166,293
Interests by credit card	3,793,981	3,609,459	3,182,572
Services	1,017,942	985,971	956,869
Leases	238,346	224,472	221,363
Other	144,716	145,484	66,750
Total income	\$ 51,755,422	\$ 49,768,427	\$ 47,593,847

21. Cost and expenses by nature

Concept	2018			
	Cost of sales	Selling and distribution expenses	Administrative expenses	Total cost and expenses
Merchandise	\$ 31,396,929	\$ –	\$ –	\$ 31,396,929
Wages and salaries	11,296	3,923,211	673,964	4,608,471
Employee benefits	–	1,921,363	336,008	2,257,371
Lease	–	1,221,383	99,876	1,321,259
Electricity	7,566	639,509	6,845	653,920
Maintenance	38,570	688,487	51,399	778,456
Advertising	3,363	458,467	–	461,830
Royalties	–	257,104	3,000	260,104
Security services	16,917	72,704	3,620	93,241
Water	7,191	121,649	943	129,783
Expansion costs	–	–	169,434	169,434
Provision for impairment of loan portfolio	–	–	926,474	926,474
Employee benefits	–	36,436	73,725	110,161
Other	105,512	2,024,434	661,470	2,791,416
	31,587,344	11,364,747	3,006,758	45,958,849
Depreciation and amortization	43,184	1,193,565	52,976	1,289,725
	\$ 31,630,528	\$ 12,558,312	\$ 3,059,734	\$ 47,248,574

Concept	2017			
	Cost of sales	Selling and distribution expenses	Administrative expenses	Total cost and expenses
Merchandise	\$ 29,837,009	\$ –	\$ –	\$ 29,837,009
Wages and salaries	11,175	3,786,072	641,605	4,438,852
Employee benefits	–	1,860,299	329,778	2,190,077
Lease	–	1,228,255	95,597	1,323,852
Electricity	6,023	607,766	7,481	621,270
Maintenance	34,019	652,190	50,727	736,936
Advertising	3,050	440,100	–	443,150
Royalties	–	254,525	3,123	257,648
Security services	16,792	74,163	4,051	95,006
Water	7,503	117,021	1,173	125,697
Expansion costs	–	–	135,143	135,143
Provision for impairment of loan portfolio	–	–	762,168	762,168
Employee benefits	–	35,510	56,190	91,700
Other	85,900	1,981,820	561,171	2,628,891
	30,001,471	11,037,721	2,648,207	43,687,399
Depreciation and amortization	43,395	1,106,413	108,553	1,258,361
	\$ 30,044,866	\$ 12,144,134	\$ 2,756,760	\$ 44,945,760

Concept	2016			
	Cost of sales	Selling and distribution expenses	Administrative expenses	Total cost and expenses
Merchandise	\$ 28,480,102	\$ –	\$ –	\$ 28,480,102
Wages and salaries	10,492	3,423,046	624,941	4,058,479
Employee benefits	–	1,755,962	310,693	2,066,655
Lease	–	1,203,007	85,039	1,288,046
Electricity	4,283	507,279	4,645	516,207
Maintenance	32,902	348,501	49,061	430,464
Advertising	2,468	416,390	–	418,858
Royalties	–	247,033	3,410	250,443
Security services	16,084	70,030	2,777	88,891
Water	7,703	109,023	872	117,598
Expansion costs	–	299	171,449	171,748
Provision for impairment of loan portfolio	–	–	493,134	493,134
Employee benefits	–	31,665	56,463	88,128
Other	73,228	2,273,950	444,794	2,791,972
	28,627,262	10,386,185	2,247,278	41,260,725
Depreciation and amortization	44,125	976,044	96,704	1,116,873
	\$ 28,671,387	\$ 11,362,229	\$ 2,343,982	\$ 42,377,598

22. Other income

	2018	2017	2016
Gain on stock purchase	\$ -	\$ -	\$ (1,141,267)
Cancellation of liabilities and provisions	(337,801)	(265,289)	(183,018)
Gain arising on changes in fair value of investment properties	(91,652)	(115,955)	(121,718)
Application of deterioration	(31,349)	-	-
Cancelation Judgment	(28,000)	-	-
Income Escrow Cabi Culiacán	(20,576)	-	-
Recovery by sequential loss	(7,143)	(54,489)	-
Parking recovery	(6,090)	-	-
Royalties sales of brand	(5,402)	-	-
Gain on sale of property, machinery and equipment	(3,218)	(3,409)	(16,597)
Others	(20,930)	(17,124)	(18,458)
	\$ (552,161)	\$ (456,266)	\$ (1,481,058)

23. Other expenses

	2018	2017	2016
Labor contingencies	\$ 43,550	\$ 37,338	\$ 40,434
Loss on sale of property, machinery and equipment	115,369	20,840	14,229
Tax Update	32,468	-	-
Doubtful accounts	-	11,823	-
Expenses for closing units	20,442	7,502	-
Contingency technical assistance	15,913	-	-
Allowance of acquired portfolio	-	-	7,404
Sub-leases	5,341	5,239	6,837
Impairment of property	8,174	31,349	-
Others	21,641	25,712	16,563
	\$ 262,898	\$ 139,803	\$ 85,467

24. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2018 and 2017 was 30% and will continue to 30% and thereafter. The rate of current income is 30%. The Entity incurred ISR on a consolidated basis until 2014 with Grupo Carso, S.A.B. de C.V. As a result of the 2014 Tax Law, the tax consolidation regime was eliminated.

While the 2014 Tax Law repealed the tax consolidation regime, an option was established, which allows groups of companies to determine a joint calculation of ISR (tax integration regime). The new regime allows groups of consolidated companies that share common direct or indirect ownership of more than 80%, certain benefits in the tax payment (when the group of companies include both profit and loss entities in the same period), which can be deferred over three years and reported, as updated, at the filing date of the tax declaration corresponding to the tax year following the completion of the aforementioned three-year period.

The Entity and its subsidiaries opted to join the new scheme, so determined income tax for the year 2018, 2017 and 2016 as previously described.

a. Income taxes consist of the following:

	2018	2017	2016
ISR:			
Current	\$ 1,545,900	\$ 1,582,362	\$ 1,862,935
Deferred	(199,604)	(355,090)	171,732
	\$ 1,346,296	\$ 1,227,272	\$ 2,034,667

b. Hereunder is an analysis of the deferred tax (assets) liabilities presented in the consolidated statement of financial position:

	2018	2017	2016
ISR deferred (asset) liability:			
Property, machinery and equipment and investment properties	\$ 720,382	\$ 876,830	\$ 1,139,653
Allowance for doubtful receivable	(131,432)	(152,866)	(112,738)
Allowance for obsolescence and shrinkage inventories	(160,994)	(136,044)	(125,235)
Allowances for assets and reserves for liabilities and provisions	(659,819)	(606,940)	(528,430)
Employee benefits	167,141	126,257	109,469
Others	131,434	130,716	107,156
Deferred ISR on temporary differences	66,712	237,953	589,875
Effect of tax loss carry- forwards	(57,692)	(25,283)	(25,572)
Deferred income tax liability	\$ 9,020	\$ 212,670	\$ 564,303

The net deferred income tax liability is as follows:

	2018	2017	2016
Net assets	\$ (1,233,593)	\$ (1,014,482)	\$ (600,583)
Net liabilities	1,242,613	1,227,152	1,164,886
Total	\$ 9,020	\$ 212,670	\$ 564,303

c. Following is a reconciliation of the income tax liability:

	2018	2017	2016
Beginning balance	\$ 212,670	\$ 564,303	\$ 446,496
Income tax applied to period results	(199,604)	(355,090)	171,732
Income tax recognized in other comprehensive income	(4,046)	3,457	(23,411)
Income tax from acquisition of subsidiary	-	-	(30,514)
Ending balance	\$ 9,020	\$ 212,670	\$ 564,303

d. Following is a reconciliation of the statutory and effective ISR rates expressed as a percentage of income before taxes on income:

	2018 %	2017 %	2016 %
Statutory rate	30	30	30
Plus (less) permanent differences -			
Nondeductible expenses	(1)	1	1
Inflation effects	(3)	(8)	(1)
Effective rate	26	23	30

e. Benefits from restated tax loss carry forwards for which a deferred ISR asset has been recognized can be recovered by fulfilling certain requirements. The amount of tax loss carryforwards for all of the subsidiaries and their related expiration dates as of December 31, 2018 are as follows:

Year of Expiration	Tax loss carryforwards
2019	\$ 132
2020	4,413
2021 and thereafter	187,764
	\$ 192,309

f. Income tax payable long-term:

It is composed by the tax integration regime that is paid in the next 3 years and the corresponding installment sales that could be paid over three years at a rate of 33.3% per year, since the tax benefit to deferred the income tax was eliminated.

	2018	2017	2016
ISR incurred by tax integration regime	\$ 665,105	\$ 497,385	\$ 444,188
	\$ 665,105	\$ 497,385	\$ 444,188

25. Commitments

- a. As of December 31, 2018, contracts have been executed with suppliers for the remodeling and construction of some of its stores. The amount of the commitments contracted in this regard is approximately \$1,071,028.
- b. Furthermore, as of December 31, 2018, the Entity and its subsidiaries have entered into lease agreements in 365 of its stores (Sears, Saks, Sanborn Hermanos, Sanborn's - Café, Mix-Up, Discolandia, i Shop, Comercializadora Dax, Corpti and Sanborns Panama). The leases are for non-cancelable periods and range between one and twenty years. The rental expense during 2018, 2017 and 2016 was \$1,323,852, \$1,288,046 and \$1,229,826, respectively; also, the Entity and its subsidiaries, acting as lessees, have contracts whose terms range from one to fifteen years and the amount of rental income in 2018, 2017 and 2016 was \$224,472, \$221,363 and \$219,583, respectively.

- The amount of rentals payable according to its due date amount to:

Maturity	December 31, 2018
1 year	\$ 732,793
1 to 5 years	3,835,380
More than 5 years	5,649,020
	\$ 10,217,193

- The amount of rentals receivable according to their due date amount to:

Maturity	December 31, 2018
1 year	\$ 29,681
1 to 5 years	208,135
More than 5 years	222,503
	\$ 460,319

- c. In December, 2010, Sears Operadora México, S.A. de C.V. (formerly Sears Roebuck de México, S.A. de C.V.) and Sears Roebuck and Co., signed an agreement whereby they have decided to extend under the same terms the Brand Use License Contract and the Merchandise Sale and Advisory Contracts governing the commercial relationship between them, which establishes the payment of 1% of the revenues from merchandise sales, and allows the use of the Sears name both in its corporate name and in its stores, and the exploitation of the brands owned by Sears Roebuck and Co. The agreement will be in effect up to September 30, 2019, but allows for a seven-year extension under the same conditions, unless one of the parties decides not to do so, in which case it must notify the other party two years in advance.
- d. Based on an agreement signed on September 12, 2006, the Entity executed a contract for the payment of consulting and brand use license for an initial term of 15 years with a 10 years renewal option, establishing the minimum annual payment of US \$500,000 and allowing the use of the name Saks Fifth Avenue both in its corporate name and in its stores.

26. Contingencies

As of the date of these financial statements, the Entity has judicial procedures in process with the competent authorities for diverse reasons, mainly for foreign trade duties, for the recovery of accounts receivable and of labor matters.

The estimated amount of these judgments to December 31, 2018 amounts to \$559,859, for which the Entity has recognized provisions \$125,708 which is included in other liabilities in the consolidated statements of financial position. During 2018 the Entity made payments related to these matters of approximately \$40,533. While the results of these legal proceedings cannot be predicted with certainty, management does not believe that any such matters will result in a material adverse effect on the Entity's financial position or operating results.

27. Segment Information

The information by operating segments is presented based on management's approach; general and geographical information is also presented. Balances with subsidiaries are presented in the "other and eliminations" column.

a. Information by operating segment is as follows:

	2018				
	Sears and Boutiques	Sanborns	Mixup and iShop	Others and eliminations	Total consolidated
Total revenue	\$ 25,815,304	\$ 12,607,916	\$ 9,798,470	\$ 3,533,732	\$ 51,755,422
EBITDA ⁽¹⁾	3,370,267	700,514	516,206	1,384,022	5,971,009
Consolidated comprehensive income	1,494,326	150,786	343,327	1,546,067	3,534,506
Interest income	105,930	135,562	61,984	74,131	377,607
Interest expense	587,686	260,290	6,949	(578,470)	276,455
Depreciation and amortization	846,448	297,546	63,470	82,261	1,289,725
Income taxes	531,728	149,742	162,267	502,559	1,346,296
Total assets	26,164,564	9,379,932	4,219,914	10,618,023	50,382,433
Current liabilities	12,508,482	5,076,066	2,779,269	(5,738,890)	14,624,927
Long-term liabilities	80,230	256,083	38,454	1,589,445	1,964,212
Total liabilities	12,588,712	5,332,149	2,817,723	(4,149,445)	16,589,139
Capital expenditures	922,079	336,130	73,494	86,647	1,418,350

	2017				
	Sears and Boutiques	Sanborns	Mixup and iShop	Others and eliminations	Total consolidated
Total revenue	\$ 25,416,317	\$ 12,599,598	\$ 8,408,732	\$ 3,343,780	\$ 49,768,427
EBITDA ⁽¹⁾	3,639,435	864,178	490,563	1,337,989	6,332,165
Consolidated comprehensive income	1,815,365	251,323	325,657	1,565,511	3,957,856
Interest income	123,102	118,088	46,341	36,331	323,862
Interest expense	560,682	236,750	10,662	(541,782)	266,312
Depreciation and amortization	817,497	313,183	51,974	75,707	1,258,361
Income taxes	556,943	148,133	142,786	379,410	1,227,272
Total assets	25,884,744	9,366,092	3,218,795	9,418,283	47,887,914
Current liabilities	13,064,647	4,869,910	1,947,645	(6,483,811)	13,398,391
Long-term liabilities	232,284	250,165	35,373	1,451,951	1,969,773
Total liabilities	13,296,931	5,120,075	1,983,018	(5,031,860)	15,368,164
Capital expenditures	1,072,590	181,269	65,702	264,136	1,583,697

	2016				
	Sears and Boutiques	Sanborns	Mixup and iShop	Others and eliminations	Total consolidated
Total revenue	\$ 24,561,071	\$ 12,714,496	\$ 7,233,565	\$ 3,084,715	\$ 47,593,847
EBITDA [1]	3,707,863	1,011,802	416,733	1,337,743	6,474,141
Consolidated comprehensive income	1,831,839	370,354	262,498	2,001,614	4,466,305
Interest income	119,968	123,314	28,240	137,862	409,384
Interest expense	434,325	193,539	9,221	(286,110)	350,975
Depreciation and amortization	720,849	287,574	43,223	65,227	1,116,873
Income taxes	827,121	279,601	124,687	803,258	2,034,667
Total assets	24,394,551	9,127,038	2,613,293	9,050,161	45,185,043
Current liabilities	12,836,031	4,680,004	1,397,934	(6,431,531)	12,482,438
Long-term liabilities	96,448	239,733	30,202	1,384,697	1,751,080
Total liabilities	12,932,479	4,919,737	1,428,136	(5,046,834)	14,233,518
Capital expenditures	1,623,037	596,634	28,815	656,157	2,904,643

⁽¹⁾ EBITDA reconciliation

	December 31, 2018	December 31, 2017	December 31, 2016
Income before income taxes	\$ 5,084,351	\$ 5,389,253	\$ 6,768,654
Depreciation and amortization	1,289,725	1,258,361	1,116,873
Interest income	(377,607)	(323,862)	(409,384)
Interest expense	276,455	266,312	350,975
Gain on investment property revaluation	(91,652)	(115,955)	(121,718)
Gain or stock purchase	–	–	(1,141,267)
Equity in income of associates entities	(187,088)	(173,293)	(89,992)
Impairment property	(23,175)	31,349	–
EBITDA	\$ 5,971,009	\$ 6,332,165	\$ 6,474,141

b. General segment information by geographical area:

The Entity operates in different locations and has distribution channels in Mexico and Central America through its commercial offices or representatives.

The distribution of such sales is as follows:

	December 31, 2018	%	December 31, 2017	%	December 31, 2016	%
Mexico	\$ 51,082,553	98.70	\$ 49,107,135	98.67	\$ 46,962,963	98.67
El Salvador	580,972	1.12	552,195	1.10	523,714	1.10
Panama	91,897	0.18	109,097	0.23	107,170	0.23
	\$ 51,755,422	100.00	\$ 49,768,427	100.00	\$ 47,593,847	100.00

28. Authorization to issue the financial statements

The consolidated financial statements were authorized for issue on April 9, 2019, by Lic. Mario Bermúdez Dávila, CFO; consequently, they do not reflect events occurred after that date, and are subject to the approval of the Entity's ordinary shareholders' meeting, where they may be modified, in accordance with the provisions of the General Law of Commercial Companies. The consolidated financial statements for the year ended December 31, 2017 and 2016, were approved at the ordinary shareholders' meeting that took place on April 26, 2018 and April 20, 2017, respectively.

www.gsanborns.com.mx

Plaza Carso

Lago Zurich No. 245
Presidencia Falcón Building, 7th Floor Colonia
Ampliación Granada
Mexico City 11529